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C O N F I D E N T I A L VILNIUS 000166

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TAGS: [ECON](#) [EFIN](#) [LH](#)
SUBJECT: ECONOMIC DISTRESS INTENSIFYING IN LITHUANIA

REF: A. VILNIUS 97
[B.](#) VILNIUS 95

Classified By: Ambassador John A. Cloud for reasons 1.4 (b) and (d).

SUMMARY

[¶](#)1. (C) The economic situation is worsening in Lithuania. Devaluation of the Polish zloty and Russian ruble, rising unemployment, and decreasing revenues are some of the challenges Lithuania faces. Local analysts recently revised growth forecasts for 2009 to negative nine to ten percent. Unfortunately, the EU, according to our interlocutors, adheres to a rosier than reality picture of its eastern frontier and is unlikely to set aside sufficient funds to steady economies in Eastern Europe. An IMF aid package may be in Lithuania's future and another round of budget cuts, including public sector layoffs, is likely by June. International borrowing is likely to be more difficult for the GOL with the recent downgrade of its sovereign debt by Standard and Poor's.

THE NUMBERS DON'T LIE

[¶](#)2. (SBU) The Polish and Russian currencies have devalued between twenty and thirty percent relative to the Lithuanian lita. Lithuania is therefore losing exports in two of its largest markets, as well as VAT and excise revenue, as Lithuanians travel to neighboring countries to stock up on cheaper goods. The discrepancy in prices is so great that Lithuanian trucking companies are instructing their drivers to fill up in Poland, Russia or Belarus. In doing so, a company operating 10 trucks can save between 3,200 and 4,000 euros per month, depending on where it fills its tanks.

[¶](#)3. (C) Unemployment continues to worsen. A source told us that desperate job applicants are queuing in front of Labor Exchanges before they open at 7 a.m. The Exchange reports 148,900 job seekers in February 2009, 77.8 percent more job seekers in January 2009 than January 2008, and unemployment in the double digits in some regions.

[¶](#)4. (U) The government's budget deficit is growing, despite earlier budget cuts and tax increases, as revenues decline. The GOL slashed spending by approximately 15 percent at the beginning of the year, and is now seeking another 3 billion LTL in cuts (about 11 percent of the original budget), even as analysts revised growth forecasts for the year to negative nine to ten percent. The details are not yet clear, but cuts likely will include eliminating many public sector employee perks (bonuses, entertainment budgets, government owned vacation accommodations, etc.), reducing the number of state programs, consolidating government functions, and decreasing the salaries of the top management of state enterprises (by as much as 25 percent). In addition, PM Kubilius recently said that the GOL would consider laying off 4,000 public sector employees or approximately twenty percent of total staff.

[¶](#)5. (SBU) External borrowing, already a challenge, should become more difficult following Standard and Poor's lowering its sovereign credit ratings on Lithuania to BBB/A-3 from BBB

EU NOT HELPING

¶6. (C) Mykolas Majauskas, economic advisor to the prime minister, told us that the EU is not likely to help Eastern Europe with extra aid and said that what is now set aside is insufficient for the prospective need. Ramunas Vilpisauskas, economic advisor to the president, alleged that the EU has a "rosier view" than the economic situation in Eastern Europe warrants.

¶7. (C) Majauskas said that the EU is unlikely to advance Lithuania's euro accession. He told us that PM Kubilius had not expected the requirements for euro accession to be lowered, even under the current extreme circumstances, but said that the GOL had at least hoped for some "positive signals" to come out of the March 1 Informal Meeting of Heads of State or Government in Brussels. Instead, the President of the Euro Group, Prime Minister Jean Claude Juncker of Luxembourg, made a statement emphasizing that the euro aspirant countries should not expect anything different or unusual. This, Majauskas said, sounded more like a negative signal.

COMMENT

¶8. (C) Lithuania's economy hasn't driven off a cliff but the economic situation is worsening. PM Kubilius still prefers to take tough measures without turning to the IMF to help. Lithuania continues "technical talks" only with the IMF.

CLOUD